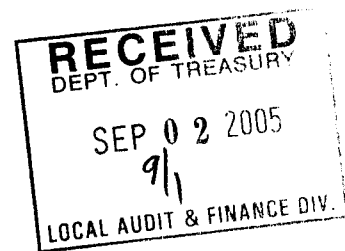


TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005



## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Tobacco	<b>County</b> Gladwin
<b>Audit Date</b> March 31, 2005	<b>Opinion Date</b> June 20, 2005	<b>Date Accountant Report Submitted to State:</b> August 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707

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## INDEPENDENT AUDITOR'S REPORT

June 20, 2005

To the Township Board  
Township of Tobacco  
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Tobacco, Gladwin County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Tobacco's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Tobacco, Gladwin County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Township of Tobacco covers the Township's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$948,417.87 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$486,032.85 from governmental activities. Governmental activities had a \$68,057.85 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Fire Fund, Garbage Fund, Petrick Pine Fund, Daleview Fund and the Current Tax Collection Fund.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Fire Fund, Garbage Fund, Petrick Pine Fund and the Daleview Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$69,233.37.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$20,294.00.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 66% of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk, Roshelle Brubaker at 989-435-4525.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	734 934 48
Taxes receivable	17 176 39
Special assessments receivable	<u>11 243 35</u>
Total Current Assets	<u>763 354 22</u>
NON-CURRENT ASSETS:	
Capital Assets	249 100 00
Less: Accumulated Depreciation	<u>(61 778 49)</u>
Total Non-current Assets	<u>187 321 51</u>
TOTAL ASSETS	<u><u>950 675 73</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>2 257 86</u>
Total Current Liabilities	<u>2 257 86</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>2 257 86</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	187 321 51
Unrestricted	<u>761 096 36</u>
Total Net Assets	<u>948 417 87</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>950 675 73</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	19 159 28	-	(19 159 28)
General government	97 415 27	25 992 26	(71 423 01)
Public safety	106 186 36	2 078 44	(104 107 92)
Public works	188 031 25	95 345 00	(92 686 25)
Other	7 182 84	-	(7 182 84)
Total Governmental Activities	<u>417 975 00</u>	<u>123 415 70</u>	<u>(294 559 30)</u>
General Revenues:			
Property taxes			180 505 81
State revenue sharing			174 855 48
Interest			6 460 09
Miscellaneous			795 77
Total General Revenues			<u>362 617 15</u>
Change in net assets			68 057 85
Net assets, beginning of year			<u>880 360 02</u>
Net Assets, End of Year			<u>948 417 87</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2005

<u>Assets</u>	<u>General</u>	<u>Garbage</u>	<u>Fire Protection</u>
Cash in bank	370 388 73	140 187 96	218 490 71
Taxes receivable	6 405 71	-	10 770 68
Special assessments receivable	-	10 743 35	-
Due from other funds	432 64	50 41	95 33
Total Assets	<u>377 227 08</u>	<u>150 981 72</u>	<u>229 356 72</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	2 257 86	-	-
Total liabilities	<u>2 257 86</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	374 969 22	150 981 72	229 356 72
Total fund equity	<u>374 969 22</u>	<u>150 981 72</u>	<u>229 356 72</u>
Total Liabilities and Fund Equity	<u>377 227 08</u>	<u>150 981 72</u>	<u>229 356 72</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
5 248 70	734 316 10
-	17 176 39
500 00	11 243 35
<u>40 00</u>	<u>618 38</u>
<u>5 788 70</u>	<u>763 354 22</u>

<u>-</u>	<u>2 257 86</u>
<u>-</u>	<u>2 257 86</u>

<u>5 788 70</u>	<u>761 096 36</u>
<u>5 788 70</u>	<u>761 096 36</u>
<u>5 788 70</u>	<u>763 354 22</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 761 096 36

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	249 100 00
Accumulated depreciation	<u>(61 778 49)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>948 417 87</u>
--	-------------------

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2005

	<u>General</u>	<u>Garbage</u>	<u>Fire Protection</u>
Revenues:			
Property taxes	60 271 72	-	120 234 09
Licenses and permits.	3 432 20	-	-
State revenue sharing	174 855 48	-	-
Charges for services – PTAF	19 938 50	-	-
Charges for services – cemetery	4 700 00	-	-
Interest	4 053 75	1 058 62	1 336 38
Special assessments	-	90 660 00	-
Miscellaneous	795 77	-	-
Total revenues	<u>268 047 42</u>	<u>91 718 62</u>	<u>121 570 47</u>
Expenditures:			
Legislative:			
Township Board	19 159 28	-	-
General government:			
Supervisor	9 803 54	-	-
Elections	2 411 03	-	-
Assessor	28 030 42	-	-
Clerk	11 193 19	-	-
Board of Review	859 05	-	-
Treasurer	25 710 38	-	-
Building and grounds	8 491 52	-	-
Cemetery	8 541 76	-	-
Public safety:			
Fire protection	-	-	87 397 95
Zoning	6 756 21	-	-
Ordinance enforcement	182 67	-	-
Public works:			
Highways and streets	69 233 37	-	-
Street lights	2 407 92	-	-
Sanitation	-	113 812 56	-
Other:			
Pension	2 627 06	-	-
Insurance	4 555 78	-	-
Capital outlay	20 294 00	-	-
Total expenditures	<u>220 257 18</u>	<u>113 812 56</u>	<u>87 397 95</u>
Excess (deficiency) of revenues over expenditures	47 790 24	(22 093 94)	34 172 52
Fund balances, April 1	<u>327 178 98</u>	<u>173 075 66</u>	<u>195 184 20</u>
Fund Balances, March 31	<u><u>374 969 22</u></u>	<u><u>150 981 72</u></u>	<u><u>229 356 72</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	180 505 81
-	3 432 20
-	174 855 48
-	19 938 50
-	4 700 00
11 34	6 460 09
4 685 00	95 345 00
-	<u>795 77</u>
<u>4 696 34</u>	<u>486 032 85</u>
-	19 159 28
-	9 803 54
-	2 411 03
-	28 030 42
-	11 193 19
-	859 05
-	25 710 38
-	8 491 52
-	8 541 76
-	87 397 95
-	6 756 21
-	182 67
2 577 40	71 810 77
-	2 407 92
-	113 812 56
-	2 627 06
-	4 555 78
-	<u>20 294 00</u>
<u>2 577 40</u>	<u>424 045 09</u>
2 118 94	61 987 76
<u>3 669 76</u>	<u>699 108 60</u>
<u>5 788 70</u>	<u>761 096 36</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 61 987 76

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(14 223 91)
Capital Outlay	<u>20 294 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>68 057 85</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Tobacco, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Tobacco. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2004 tax roll millage rate was 2.2608 mills, and the taxable value was \$79,817,842.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.



TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-30 years
Vehicles and equipment	5-15 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$187,321.51.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority. The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>734,934.48</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>635 092 27</u>
Total Deposits	<u><u>735 092 27</u></u>

The Township of Tobacco did not have any investments as of March 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	5 000 00	-	-	5 000 00
Buildings and improvements	36 098 00	-	-	36 098 00
Equipment	<u>187 708 00</u>	<u>20 294 00</u>	-	<u>208 002 00</u>
Total	228 806 00	20 294 00	-	249 100 00
Accumulated Depreciation	<u>(47 554 58)</u>	<u>(14 223 91)</u>	-	<u>(61 778 49)</u>
Net Capital Assets	<u><u>181 251 42</u></u>	<u><u>6 070 09</u></u>	<u>-</u>	<u><u>187 321 51</u></u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2005, was \$2,627.06.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Tobacco does not issue building permits. Building permits are issued by the County of Gladwin.

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	432 64	Current Tax Collection	618 38
Fire	95 33		
Garbage	50 41		
Petrack Pine	<u>40 00</u>		
Total	<u><u>618 38</u></u>	Total	<u><u>618 38</u></u>

Note 10 – Budget Variances

During the fiscal year ended March 31, 2005, the Township incurred the following budget variances:

<u>Fund/Activity</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>	<u>Budget Variance</u>
General Fund:			
Building and grounds	8 200 00	8 491 52	291 52
Street lights	1 500 00	2 407 92	907 92
Capital outlay	2 500 00	20 294 00	17 794 00

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	55 185 00	55 185 00	60 271 72	5 086 72
Licenses and permits	3 050 00	3 050 00	3 432 20	382 20
State revenue sharing	177 000 00	177 000 00	174 855 48	(2 144 52)
Charges for services – PTAF	8 100 00	8 100 00	19 938 50	11 838 50
Charges for services – cemetery	5 500 00	5 500 00	4 700 00	(800 00)
Interest	3 000 00	3 000 00	4 053 75	1 053 75
Miscellaneous	6 675 00	6 675 00	795 77	(5 879 23)
Total revenues	<u>258 510 00</u>	<u>258 510 00</u>	<u>268 047 42</u>	<u>9 537 42</u>
Expenditures:				
Legislative:				
Township Board	23 440 00	20 840 00	19 159 28	(1 680 72)
General government:				
Supervisor	10 140 00	10 140 00	9 803 54	(336 46)
Elections	2 500 00	2 500 00	2 411 03	(88 97)
Assessor	30 000 00	30 000 00	28 030 42	(1 969 58)
Clerk	11 625 00	11 625 00	11 193 19	(431 81)
Board of Review	860 00	860 00	859 05	(95)
Treasurer	27 526 00	27 526 00	25 710 38	(1 815 62)
Building and grounds	8 200 00	8 200 00	8 491 52	291 52
Cemetery	10 500 00	10 500 00	8 541 76	(1 958 24)
Public safety:				
Zoning	18 150 00	18 150 00	6 756 21	(11 393 79)
Ordinance enforcement	300 00	300 00	182 67	(117 33)
Public works:				
Highways and streets	292 769 00	177 869 00	69 233 37	(108 635 63)
Street lights	1 500 00	1 500 00	2 407 92	907 92
Other:				
Pension	6 000 00	6 000 00	2 627 06	(3 372 94)
Insurance	5 000 00	5 000 00	4 555 78	(444 22)
Contingency	10 000 00	10 000 00	-	(10 000 00)
Capital outlay	-	2 500 00	20 294 00	17 794 00
Total expenditures	<u>458 510 00</u>	<u>343 510 00</u>	<u>220 257 18</u>	<u>(123 252 82)</u>
Excess (deficiency) of revenues over expenditures	(200 000 00)	(85 000 00)	47 790 24	132 790 24
Fund balance, April 1	<u>200 000 00</u>	<u>85 000 00</u>	<u>327 178 98</u>	<u>242 178 98</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>374 969 22</u>	<u>374 969 22</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND  
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	1 500 00	1 500 00	1 058 62	(441 38)
Special assessments	89 000 00	89 000 00	90 660 00	1 660 00
Total revenues	<u>90 500 00</u>	<u>90 500 00</u>	<u>91 718 62</u>	<u>1 218 62</u>
Expenditures:				
Public works:				
Sanitation	<u>120 650 00</u>	<u>120 650 00</u>	<u>113 812 56</u>	<u>(6 837 44)</u>
Total expenditures	<u>120 650 00</u>	<u>120 650 00</u>	<u>113 812 56</u>	<u>(6 837 44)</u>
Excess (deficiency) of revenues over expenditures	(30 150 00)	(30 150 00)	(22 093 94)	8 056 06
Fund balance, April 1	<u>100 000 00</u>	<u>85 000 00</u>	<u>173 075 66</u>	<u>88 075 66</u>
Fund Balance, March 31	<u><u>69 850 00</u></u>	<u><u>54 850 00</u></u>	<u><u>150 981 72</u></u>	<u><u>96 131 72</u></u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE PROTECTION FUND  
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	112 002 00	112 002 00	120 234 09	8 232 09
Interest	<u>1 200 00</u>	<u>1 200 00</u>	<u>1 336 38</u>	<u>136 38</u>
Total revenues	<u>113 202 00</u>	<u>113 202 00</u>	<u>121 570 47</u>	<u>8 368 47</u>
Expenditures:				
Public safety:				
Fire protection	<u>91 500 00</u>	<u>91 500 00</u>	<u>87 397 95</u>	<u>(4 102 05)</u>
Total expenditures	<u>91 500 00</u>	<u>91 500 00</u>	<u>87 397 95</u>	<u>(4 102 05)</u>
Excess (deficiency) of revenues over expenditures	21 702 00	21 702 00	34 172 52	12 470 52
Fund balance, April 1	<u>100 000 00</u>	<u>90 000 00</u>	<u>195 184 20</u>	<u>105 184 20</u>
Fund Balance, March 31	<u><u>121 702 00</u></u>	<u><u>111 702 00</u></u>	<u><u>229 356 72</u></u>	<u><u>117 654 72</u></u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2005

Township Board:	
Wages	10 200 00
Professional services	1 537 50
Payroll taxes	2 816 29
Memberships and dues	1 689 70
Miscellaneous	2 915 79
	<u>19 159 28</u>
Supervisor:	
Salary	9 240 00
Miscellaneous	563 54
	<u>9 803 54</u>
Elections:	
Wages	1 860 75
Supplies	550 28
	<u>2 411 03</u>
Assessor:	
Contracted services	26 356 24
Supplies	1 674 18
	<u>28 030 42</u>
Clerk:	
Salary – Clerk	9 600 00
Miscellaneous	1 593 19
	<u>11 193 19</u>
Board of Review:	
Wages	642 00
Miscellaneous	217 05
	<u>859 05</u>
Treasurer:	
Salary – Treasurer	15 894 43
Salary – Treasurer – summer	4 988 15
Salary – Deputy	1 095 50
Tax roll preparation	479 00
Supplies	2 744 58
Miscellaneous	508 72
	<u>25 710 38</u>
Building and grounds:	
Wages – janitor	4 020 00
Operating supplies	979 08
Repairs and maintenance	1 027 99
Utilities	2 464 45
	<u>8 491 52</u>
Cemetery:	
Contracted services	7 750 00
Utilities	277 13
Miscellaneous	514 63
	<u>8 541 76</u>
Zoning:	
Wages	4 450 00
Miscellaneous	2 306 21
	<u>6 756 21</u>



TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2005

Ordinance enforcement:

Wages	60 00
Miscellaneous	<u>122 67</u>
	<u>182 67</u>

Highways and streets:

Maintenance	<u>69 233 37</u>
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Street lighting	<u>2 407 92</u>
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Pension	<u>2 627 06</u>
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Insurance	<u>4 555 78</u>
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Capital outlay	<u>20 294 00</u>
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Total Expenditures	<u><u>220 257 18</u></u>
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TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
March 31, 2005

<u>Assets</u>	<u>Garbage</u>	<u>Petrack Pine</u>	<u>Fire Protection</u>
Cash in bank	140 187 96	3 822 90	218 490 71
Special assessment receivable	10 743 35	200 00	-
Taxes receivable	-	-	10 770 68
Due from other funds	50 41	40 00	95 33
Total Assets	<u>150 981 72</u>	<u>4 062 90</u>	<u>229 356 72</u>
<u>Fund Balances</u>			
Fund balances:			
Unreserved:			
Undesignated	150 981 72	4 062 90	229 356 72
Total fund balances	<u>150 981 72</u>	<u>4 062 90</u>	<u>229 356 72</u>
Total Fund Balances	<u>150 981 72</u>	<u>4 062 90</u>	<u>229 356 72</u>

<u>Daleview</u>	<u>Total</u>
1 425 80	363 927 37
300 00	11 243 35
-	10 770 68
-	<u>185 74</u>
<u>1 725 80</u>	<u>386 127 14</u>

<u>1 725 80</u>	<u>386 127 14</u>
<u>1 725 80</u>	<u>386 127 14</u>
<u>1 725 80</u>	<u>386 127 14</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS  
Year ended March 31, 2005

	<u>Garbage</u>	<u>Petrick Pine</u>	<u>Fire Protection</u>
Revenues:			
Property taxes	-	-	120 234 09
Special assessments	90 660 00	2 960 00	-
Interest	<u>1 058 62</u>	<u>10 54</u>	<u>1 336 38</u>
Total revenues	<u>91 718 62</u>	<u>2 970 54</u>	<u>121 570 47</u>
Expenditures:			
Public safety:			
Fire protection:			
Fire Board	-	-	750 00
Contracted services	-	-	86 647 95
Public works:			
Highways and streets:			
Repairs and maintenance	-	2 577 40	-
Sanitation:			
Contracted services	<u>113 812 56</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>113 812 56</u>	<u>2 577 40</u>	<u>87 397 95</u>
Excess (deficiency) of revenues over expenditures	(22 093 94)	393 14	34 172 52
Fund balances, April 1	<u>173 075 66</u>	<u>3 669 76</u>	<u>195 184 20</u>
Fund Balances, March 31	<u><u>150 981 72</u></u>	<u><u>4 062 90</u></u>	<u><u>229 356 72</u></u>

<u>Daleview</u>	<u>Total</u>
-	120 234 09
1 725 00	95 345 00
<u>80</u>	<u>2 406 34</u>
<u>1 725 80</u>	<u>217 985 43</u>

-	750 00
-	86 647 95
-	2 577 40
<u>-</u>	<u>113 812 56</u>
<u>-</u>	<u>203 787 91</u>

1 725 80	14 197 52
<u>-</u>	<u>371 929 62</u>
<u>1 725 80</u>	<u>386 127 14</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2005

	<u>Balance</u> <u>4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/05</u>
<u>Assets</u>				
Cash in Bank	<u>128 75</u>	<u>2 414 475 43</u>	<u>2 413 925 70</u>	<u>678 48</u>
<u>Liabilities</u>				
Due to other funds	128 75	259 668 28	259 178 65	618 38
Due to others	<u>-</u>	<u>2 154 807 15</u>	<u>2 154 747 05</u>	<u>60 10</u>
Total Liabilities	<u>128 75</u>	<u>2 414 475 43</u>	<u>2 413 925 70</u>	<u>678 48</u>

TOWNSHIP OF TOBACCO  
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year ended March 31, 2005

Cash on hand -- beginning of year	<u>128 75</u>
Cash receipts:	
Taxes and assessments	2 411 913 99
Nonbusiness licenses -- animal	1 510 00
Interest	<u>1 051 44</u>
Total cash receipts	<u>2 414 475 43</u>
Total beginning balance and cash receipts	<u>2 414 604 18</u>
Cash disbursements:	
Township General Fund	67 038 59
Township Garbage Fund	79 916 65
Township Petrick Pine Fund	2 760 00
Township Fire Protection Fund	109 463 41
Gladwin County	1 181 476 72
Mid-Michigan Community College	90 949 79
Clare Gladwin Intermediate School District	151 959 48
Beaverton School District	727 182 03
Refunds	<u>3 179 03</u>
Total cash disbursements	<u>2 413 925 70</u>
Cash in Bank -- End of Year	<u>678 48</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

**RECEIVED**  
DEPT. OF TREASURY

SEP 02 2005

LOCAL AUDIT & FINANCE DIV.

June 20, 2005

To the Township Board  
Township of Tobacco  
Gladwin County, Michigan

We have audited the financial statements of the Township of Tobacco for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Tobacco in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."



To the Township Board  
Township of Tobacco  
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Township of Tobacco began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

To the Township Board  
Township of Tobacco  
Gladwin County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants